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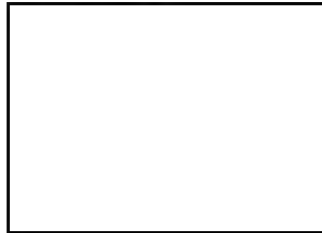
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NATIONAL INTELLIGENCE DAILY CABLE

Friday August 19, 1977

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Friday, 19 August 1977.

The NID Cable is for the purpose of informing senior US officials.

CONTENTS

FRANCE: Leftist Effect on Economy Page 1

CHILE: DINA Dissolved Page 3

SOUTHERN AFRICA: Anti-Apartheid Conference Page 5

WEST GERMANY: Economic Measures Page 6

UK: Tactical Missile Procurement Page 7

POLAND: Harvest Outlook Page 9

POLAND: US Engines for MI-2 Helicopters Page 11

YUGOSLAVIA-USSR: Relations Page 11

BRIEFS:

Japan Page 12  
Chad  
Egypt  
UK

## FRANCE: Leftist Effect on Economy

25X1 [ ] *The strong possibility that the Socialist-Communist alliance will win control in France next March so far appears to be having only moderate impact on investment decisions. The possibility of a leftist victory, however, has severely depressed stock market prices.*

25X1 [ ] To increase overall confidence, both the present government and the Patronat--the influential employers federation--are pressing firms to invest now in the hope that the resulting boost to the economy will forestall a leftist election victory.

25X1 [ ] The government's June survey indicates that French businessmen now expect to increase their nominal investment outlays about 14 percent this year. This corresponds to a real increase of 4 to 5 percent after allowing for inflation. Given the fact that excess capacity is still high in most industries, existing investment prospects seem at least reasonably satisfactory and indicate that political fears are not a major depressant.

25X1 [ ] The motor vehicle, petroleum processing, chemical, and electrical construction sectors all expect large increases in investment spending this year. All four industries have sound reasons for investment. Large output gains over the past two years in motor vehicles and electrical construction have reduced excess production capacity. The petroleum sector must invest heavily in catalytic cracking equipment to meet an expected shift in demand from heavy fuel oil to lighter products. Spokesmen for the chemical industry forecast that its firms will be unable to meet demand by 1980 unless they begin expansion programs now.

25X1 [ ] While some industries are rapidly expanding capacity, a number of others are cutting investment spending. These include basic metals, paper, shipbuilding and aircraft, coal mining, leather, clothing, and textiles. This amounts to a roll call of the "problem children" of French industry--sectors that have poor to mediocre prospects in the near future regardless of the election outcome. Most are already receiving special government aid in some form.

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[ ] The case of basic metals--especially steel--is the clearest because France suffers from the same excess-capacity problems that affect most steel-producing countries. The paper industry, as well as the entire textiles sector, is plagued by high costs and skyrocketing imports of foreign products. Coal continues its inexorable decline simply because French reserves are running low. Shipbuilding must retrench because of its nearly total failure over the past 18 months to garner new orders, while aircraft producers are in a similar situation because of poor sales of the Concorde and other civil airliners.

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[ ] Rumors of large-scale capital flight began to surface not long after the March 1976 local election, in which the Socialist-Communist coalition made substantial gains. Partial data and press commentary indicate that France has experienced a net outflow of portfolio investment funds over the past year or so, but the amounts apparently involved point to a moderate shift in investor behavior rather than to anything that might be labeled capital flight. Data on overall short-term capital movements--available through the first quarter of this year--also point to an absence of large-scale capital flight.

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[ ] //Also, a number of individuals have been apprehended recently while attempting to carry large sums out of the country--though this may not be unusual for France, which has had exchange controls for a number of years.//

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[ ] Fear of a leftist government clearly is depressing stock prices on the Paris Bourse. The average French stock can now be purchased for just half as many francs as in 1961, even though nominal gross national product is now six times the 1961 level. Stock indexes dipped in each of the last two years

immediately after leftist victories in local elections. Significantly, the only stock category to resist the downtrend is made up of French firms with their principal business outside France.

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[ ] This strong political impact on the stock market--in contrast to the comparatively weak effect on business investment--may reflect mainly the influence of psychological factors on stock price movements. The Paris Bourse is a relatively thin market and thus is especially volatile; French firms rely on internal resources and borrowed funds, rather than equity financing, for the bulk of their capital requirements. Another possible cause of the divergence between stock prices and business investment may be that stockholders are behaving as owners while corporate managers are behaving as salaried employees.

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[ ] Stockholders have valid reasons for fearing a leftist government. The Socialist-Communist alliance already has targeted nine major companies for nationalization, and pressure to extend the list is evident within the alliance. Leftist plans to boost social security charges and to allow big wage increases threaten corporate profits across the board. Finally, a leftist government would be likely sooner or later to increase personal income taxes on nonwage income such as dividends and capital gains. [ ]

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# CHILE: DINA Dissolved

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[ ] *//Chilean President Pinochet's decision last week to abolish the National Intelligence Directorate (DINA) appears to represent a genuine effort to curtail abuses of human rights and not just another cosmetic fix. Although the government's assurances cannot always be taken at face value, Pinochet has been under strong pressure from civilian and military advisers to clip DINA's wings.//*

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[ ] *//The new guidelines suggest that most of DINA's personnel will be absorbed by a National Information Center to be created under the Interior Ministry. DINA's arrest and detention powers are also being transferred to the national police (Carabineros) and to the Judicial Police under the Defense Ministry. While illegal activity is still possible under this arrangement, it is our judgment that opportunities for repressive practices will be greatly reduced:*

[REDACTED]

--The new agency apparently will not report directly to the President.

--Both the Carabineros and the Judicial Police are highly regarded, professional law-enforcement organizations.

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[REDACTED]

25X1

[REDACTED] //Other moves to liberalize the regime may be possible if the organization replacing DINA is restricted solely to information gathering and the President follows up on plans to reduce the state of siege and lift the curfew.//

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[REDACTED] //The direction taken by Pinochet during the past month reflects an awareness that other military governments in South America are formulating plans to return to civilian rule. The debate stimulated by this trend is likely to sustain momentum for political change in Chile.

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[REDACTED] //Most Chilean leaders appear to be gratified and encouraged by signs that the military at last is modifying the most severe aspects of repression. Even former president Frei, leader of the country's largest political party and a fervent critic of Pinochet, acknowledges that the dissolution of DINA might be a positive step.//

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[REDACTED] //Despite official disclaimers to the contrary, Santiago has made substantial concessions to meet US recommendations on human rights improvements. This latest shift reflects the government leaders' realization that Chile must strive to improve relations with the US if Chile is to improve its image in the world. Many countries have regarded Chile with contempt since the military seized power in 1973. The announcement of the abolition of DINA during the visit of US State Department official Todman appears to have been designed to have a maximum impact on Chile's relations with the US and to gain favorable international publicity for the change. [REDACTED]

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SOUTHERN AFRICA: Anti-Apartheid Conference

*A five-day UN-sponsored world conference for action against apartheid opens Monday in Lagos, Nigeria. Representatives of almost all nations, as well as numerous international organizations, various liberation movements, and prominent individuals will attend. The meeting, which stems from a UN General Assembly resolution of last November, is supposed to review actions taken by participants to oppose apartheid and to devise ways to eliminate it.*

The conference, which will focus on Namibia and Rhodesia as well as South Africa, could prove more divisive than productive as moderates and militants promote their views on how to combat apartheid and seek to publicize issues extraneous to the meeting. The more militant participants will demand stringent economic and military sanctions against South Africa. The tone of the meeting will likely be set by Zambian President Kaunda who will give the principal keynote speech.

Nigeria, the conference host, reportedly is anxious to make the meeting an event commanding world attention and to have it free of confrontation and irrelevant issues. The Nigerians would like to see the conference adopt a declaration of principles and a program of action that is hard-hitting, yet capable of receiving widespread support.



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[ ] The proposed conference declaration drafted by the Nigerians, however, contains language unacceptable to Western nations, which have already proposed changes. The draft calls for what amounts to a mandatory arms embargo, the elimination of South Africa's rights under international law, the suspension of loans to and investment in South Africa until apartheid is abolished, and the cessation of all nuclear cooperation with South Africa. References to the role of liberation groups go beyond what the US has agreed to in past UN Security Council resolutions. The Nigerians have indicated they will carefully consider the changes proposed by the West, but cautioned that they are under pressure from others to maintain a tough line.

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[ ] There are strong indications that Israel will be a major target, and Tel Aviv has announced that it is boycotting the meeting. Arab militants, such as Syria and the Palestinians, can be expected to press--against opposition from Egypt and Saudi Arabia--for language in the final conference report that would equate Zionism with apartheid. In addition, strong attacks may be mounted against Israel for its military and purported nuclear cooperation with South Africa. [ ]

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#### WEST GERMANY: Economic Measures

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[ ] *The West German government is working to put together a series of stimulative economic measures than can be implemented as quickly as possible. Until last week, Chancellor Schmidt, Finance Minister Apel, and Economics Minister Friderichs, the ruling coalition's economic triumvirate, had steadfastly rejected widespread domestic and foreign pressures for further demand stimulation. They had apparently counted on the infrastructure program to give the economy the needed lift.*

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[ ] If serious difficulties within and between the Social Democratic and the Free Democratic parties can be worked out, the government probably will announce its economic package after the cabinet meeting scheduled for August 31. The package probably would involve temporary reductions in personal and corporate income taxes. Under Bonn's Stability and Growth Law, these measures could be implemented by decree, subject to parliamentary approval.

25X1 [ ] Difficulties in getting the government's highly touted \$6 billion to \$7 billion multi-year infrastructure investment program off the ground help explain Bonn's search for additional measures. The recent series of disappointing employment and industrial order statistics simply confirmed the picture that already had emerged. The current slowdown in business activity finally forced the government to admit that its 1977 goal for 5 percent real growth is no longer attainable.

25X1 [ ] It now appears likely that contracts let under the infrastructure program this year will fall significantly short of the \$1.5 billion total that the government had earlier expected to award. The Transport Ministry, which has been allocated some \$330 million for additional investments this year, thus far has been able to approve projects for only \$240 million. Most of the other ministries, with the exception of the Ministry of Housing, also report short-falls in project approvals.

25X1 [ ] The principal problem is administrative. The program specifically restricts funding to new projects, those not previously included in federal, state, or local budgets. Identification of eligible projects, preparation of appropriate plans and designs, and approval by the authorities have turned out to be more time-consuming than envisioned. Further delays are likely as private citizens adversely affected by specific projects, such as the relocation of railroad crossings and construction of overpasses, which figure prominently in the federal government's program, seek judicial relief. [ ]

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#### UK: Tactical Missile Procurement

25X1 [ ] //The UK announced this week its decision to acquire a mixture of British- and US-built tactical missile systems for its armed forces. The decision reflects the UK's continuing preference for US weapons over similar European systems and demonstrates the government's desire to protect the future of its own defense industry.//

25X1 [ ] //Minister of State for Defense John Gilbert said the UK would buy US-made Sidewinder air-to-air missiles for several air force and navy fighter aircraft as well as TOW antitank missiles for use on the army's Lynx helicopters.//

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[REDACTED] //The Sidewinder was probably chosen because it is a proven and effective weapon suitable for use on both the Royal Air Force's F-4s and the new Tornado air defense aircraft. Purchase of the TOW is a setback for the French and West Germans who have been pushing their jointly developed HOT missile as a standard for NATO's European armies.//

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[REDACTED] //Gilbert also said the air force would adopt a British-designed antiship missile--probably one still under development--for use on its Buccaneer and Tornado deep-strike aircraft. In addition, the government has decided to finance a program to improve the Sea Dart, the navy's standard surface-to-air missile.//

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[REDACTED] //The announcement of government support for the two British projects will be welcome news to the UK's guided weapons industry. The projects will help the industry continue meaningful development work, keep its production lines and work force active, and maintain its design capability into the next decade.//

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[REDACTED] //In his remarks, Gilbert suggested the government's decisions were consistent with the UK's policy of seizing opportunities to standardize its weapons with those of other NATO countries. Britain's European allies and arms industry competitors--especially France and West Germany--are likely to disagree, seeing it as a defeat rather than a victory for arms standardization efforts.

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POLAND: Harvest Outlook

25X1 [ ] Recent heavy rains and floods in Poland have dimmed this year's harvest outlook. As a result, the government could find it more difficult to boost livestock production and reduce consumer grumblings over chronic meat shortages. Party leader Gierek has indicated to Senator McGovern that Poland would like to purchase 5 million tons of US grain in 1977-1978 on favorable credit terms. Large grain purchases will exacerbate Warsaw's hard currency balance-of-payments problems.

25X1 [ ] Rains and floods, which began in late July, hit southern and western Poland during the initial stage of the harvest. Almost half a million acres of farmland were reported flooded by August 12, mainly along the Odra and Bobr rivers. Heavy rains last weekend caused additional flooding in the western counties along the Baltic coast. The affected areas account for a quarter of total grain acreage.

25X1 [ ] Serious damage may also result from the grain having been knocked to the ground by wind and rain. The US agricultural attache reports that 30 to 50 percent of the grain was

flattened in several major grain-producing counties in western Poland. As a result, much more of the grain crop will have to be harvested by hand this year. Continuing rains, however, have hampered hand harvesting.

25X1 [ ] Polish officials indicate the grain harvest may drop below 20 million tons. Warsaw had expected a 22-million-ton harvest this year--1 million tons short of the 1974 record. In addition, Prime Minister Jaroszewicz has admitted that the production of potatoes--the major sources of hog feed--will fall short of the 1976 level of 50 million tons.

25X1 [ ] Although the floods resulted in minimal livestock losses, a third consecutive poor harvest could jeopardize the regime's new program to boost livestock production and meat supplies to the population. Attempts last year to raise private farm production of hogs by making it more profitable have had some success this year. Continued progress, however, will depend on the availability of feed and fodder supplies over the fall and winter months.

25X1 [ ] Jaroszewicz already had indicated that the large grain and fodder imports of last year--7 million tons--may have to be repeated to sustain livestock numbers. Moscow is expected to provide 1 million to 2 million tons while most of the remainder will have to be purchased in the West, mainly from the US and Canada.

25X1 [ ] In talks with Senator McGovern yesterday, Party leader Gierek indicated that Poland wants to purchase 5 million tons of US grain--twice its planned purchases--in 1977-1978 on easy credit terms. Warsaw will probably press later this year for increased US Commodity Credit Corporation credits, easier credit terms on previously extended CCC credits, and resumption of US PL 480 grain shipments to Poland. Poland's already strained hard-currency balance of payments necessitates the search for favorable credit terms.

25X1 [ ] Even with large grain imports, livestock output could falter if small private farmers--suffering from shortfalls in their own production of fodder crops, especially potatoes--do not receive adequate feed supplies from the state. In the past, they frequently have been on the tail end of the distribution system.

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[REDACTED] The floods will have little impact on meat availability for the balance of the year. Nonetheless, we expect supplies to remain below 1976 levels--even with continued meat imports and reduced exports. Consumer dissatisfaction over the continuing meat shortages is likely to remain high throughout the year. In addition, flood-induced shortfalls in fruit and vegetable supplies could add to consumer dissatisfaction. [REDACTED]

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POLAND: US Engines for MI-2 Helicopters

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[REDACTED] *//Poland recently has expressed interest in obtaining US engines for the Soviet-designed MI-2 helicopters produced in Poland. The US engines would significantly improve the performance of the military and civil versions of the MI-2 helicopter and increase its marketability.//*

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[REDACTED] *//Representatives of the Polish foreign aviation trade enterprise are interested in buying the US-made Allison turboshaft engine as a replacement for a Soviet-designed turboshaft engine produced under license in Poland. They already have obtained and evaluated one of these engines. Two engines are used to power each of the 100 to 150 MI-2, helicopters produced in Poland annually.//*

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[REDACTED] *//Both the Soviet and American engines produce about 400 hp, but the Allison engine weighs only half as much as the Soviet model and has about 30 percent greater fuel economy. The use of the Allison engines would increase the helicopter's range, payload capacity, and service ceiling, thus enhancing its sales potential.//*

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[REDACTED] *//The Polish aviation industry cooperates closely with the Soviet Union, and the technology will probably be passed to the Soviets.* [REDACTED]

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YUGOSLAVIA-USSR: Relations

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[REDACTED] *Official talks between Yugoslav President Tito and Soviet President Brezhnev ended yesterday in Moscow. Tass said the communique is ready for release and* [REDACTED]

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[REDACTED] *it may be issued today.*

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[ ] The atmosphere surrounding the talks suggests the visit has satisfied the mutual goal of reapplying a cordial gloss to bilateral relations. The Soviets rolled out the red carpet for Tito, and he responded warmly.

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[ ] There have only been the usual restatements of long-standing differences in the ceremonial speeches. The Yugoslav leader has adhered resolutely to nonaligned positions and has even criticized all great power interference in Africa, implicitly including the Soviets'. He also took an independent stance in defending the principle of interparty autonomy within the communist movement.

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[ ] Tito is spending a few days resting in Siberia before going on to Korea next week. [ ]

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# BRIEFS

## JAPAN

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[ ] Japan has begun construction of a centrifuge pilot plant for uranium enrichment after a five-year research and development program. The plant, which is being built near the Ningyo-Toge uranium mine, will be capable of producing 10 tons of low-enriched uranium per year in 1980--an insignificant portion of the approximately 400 tons per year that Japanese nuclear power plants will require by that time. This pilot plant will be followed by a demonstration plant and, finally, by a full-scale commercial plant that is scheduled to be operational in the early 1990s. [ ]

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## CHAD

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[ ] The US embassy in Chad has confirmed that Libya recently delivered fresh arms to Chadian Muslim rebels. During a Chadian army operation two weeks ago in eastern Chad south of Abeche, a truck convoy of Soviet arms originating in Libya was captured. One of the truck drivers said the arms had been airlifted from Libya to Gouro--a town in territory held by Libyan-backed Toubou Muslim rebels in northern Chad--and trucked from there to eastern Chad for another Libyan-aided Muslim insurgent group.

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[redacted] Some of the Libyan arms are doubtless for the Toubou rebels. The Chadian government fears that the Toubou may soon attack the main northern garrison at Faya-Largeau. [redacted]

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EGYPT

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[redacted] A US news service, quoting the semi-official Cairo daily *al-Ahram* reports that the Egyptian government is planning to cut food price subsidies while increasing the minimum wage. It is unknown why the Egyptian government would unilaterally make further cuts in subsidies beyond those required by the agreement signed earlier this year with the International Monetary Fund. The situation may be clarified upon receipt of additional information [redacted]

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UK

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[redacted] The candidate from Britain's ruling Labor Party convincingly won a parliamentary by-election yesterday. Following a campaign marked by racial violence, the Labor candidate defeated his Conservative Party rival by almost two to one. Conservatives have won ten of the sixteen by-elections since the 1974 general election. [redacted]

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